

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

**REPORT ON THE EXAMINATION
OF THE DISTRICT OF COLUMBIA'S
HIGHWAY TRUST FUND
FORECAST STATEMENTS FOR
FISCAL YEARS 2003 - 2007 WITH ACTUAL
AUDITED FIGURES FOR FY 2002**



**CHARLES C. MADDOX, ESQ.
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



May 30, 2003

The Honorable Anthony A. Williams
Mayor
District of Columbia
John A. Wilson Building
1350 Pennsylvania Avenue, N.W., 6th Floor
Washington, D.C. 20004

Dear Mayor Williams:

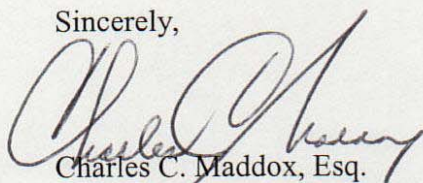
The Office of the Inspector General has completed an examination of the District of Columbia Highway Trust Fund's 5-year forecast of expenditure conditions and operations. The District Department of Transportation administers the Highway Trust Fund (Fund) for the District of Columbia government and is responsible for preparing the forecast.

Our examination included a review of existing internal controls for the purpose of expressing an opinion on the accompanying forecasted statements. Although we found no instances of noncompliance that would be reportable under generally accepted government auditing standards, the objective of our review was not to provide an opinion on overall compliance with such provisions.

In our opinion, the forecasted statements referred to above are presented in conformity with guidelines for presentation of forecasted information established by the American Institute of Certified Public Accountants. The underlying assumptions made and methodologies used to develop the statements provide a reasonable basis for the 5-year forecast.

We appreciate the cooperation and courtesies extended to our staff during the examination. If you have questions please call me or William J. DiVello, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,



Charles C. Maddox, Esq.
Inspector General

CCM/js

Enclosure

cc: See attached page for distribution list

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GOVERNMENT OF THE DISTRICT OF COLUMBIA
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May 30, 2003

The Honorable Anthony A. Williams
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District of Columbia
John A. Wilson Building
1350 Pennsylvania Avenue, N.W., 6th Floor
Washington, D.C. 20004

Re: Auditor's Report on Forecast Statements

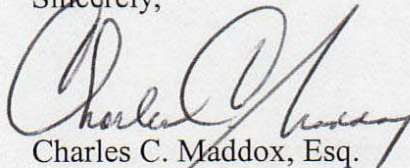
Dear Mayor Williams:

In accordance with D. C. Code § 9-109.02(e), the Office of the Inspector General has completed an examination of the District of Columbia Highway Trust Fund's 5-year forecast of expenditure conditions and operations. The forecast is scheduled to be published in the *Fiscal Year 2004 Proposed Budget and Financial Plan*. Our examination was made in accordance with attestation standards established by the American Institute of Certified Public Accountants for an examination of a forecast and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecast. The AICPA's standards on attestation for financial related audits are incorporated in *Government Auditing Standard* published by the Comptroller General of the United States.

In our opinion, the accompanying forecast is presented in conformity with the guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for management's forecast. However, there will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The forecast projects deficits for fiscal years 2006 and 2007. However, should actual funding be insufficient during those years, the District plans to push back or delay approved projects to avoid deficit spending.

Sincerely,



Charles C. Maddox, Esq.
Inspector General

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(\$000s)

	D.C. Transportation			D.C. Transportation		
	Trust Fund	Federal	Total	Trust Fund	Federal	Total
	FY 2002	FY 2002	FY 2002	FY 2003	FY 2003	FY 2003
Sources						
Beginning Balance	\$ 54,444	\$ 374,331	\$ 428,775	\$ 39,265	\$ 349,164	\$ 388,429
Interest Earnings	1,467	-	1,467	356	-	356
Motor Fuel Tax	27,348	-	27,348	28,908	-	28,908
Federal Aid Apportionment		125,644	125,644	-	107,921	107,921
Total Revenues	<u>83,259</u>	<u>499,975</u>	<u>583,234</u>	<u>68,529</u>	<u>457,085</u>	<u>525,614</u>
USES						
Est. Project Management	6,078	15,984	22,062	2,397	16,028	18,425
Est. Non-Participating Cost	14,814	-	14,814	2,893	-	2,893
Est. Design, Site, Construction and Equipment Cost	<u>23,102</u>	<u>134,827</u>	<u>157,929</u>	<u>30,626</u>	<u>170,078</u>	<u>200,704</u>
Total Expenditures	<u>43,994</u>	<u>150,811</u>	<u>194,805</u>	<u>35,916</u>	<u>186,106</u>	<u>222,022</u>
ENDING BALANCE	<u>\$ 39,265</u>	<u>\$ 349,164</u>	<u>\$ 388,429</u>	<u>\$ 32,613</u>	<u>\$ 270,979</u>	<u>\$ 303,592</u>

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(\$000s)

	D.C.			D.C.		
	Transportation	Federal		Transportation	Federal	
	Trust Fund	Aid	Total	Trust Fund	Aid	Total
	FY 2004	FY 2004	FY 2004	FY 2005	FY 2005	FY 2005
Sources						
Beginning Balance	\$ 32,613	\$ 270,979	\$ 303,592	\$ 16,206	\$ 155,100	\$ 171,306
Interest Earnings	237	-	237	127	-	127
Motor Fuel Tax	29,370	-	29,370	29,833	-	29,833
Federal Aid Apportionment	-	103,000	103,000	-	104,000	104,000
Total Revenues	<u>62,220</u>	<u>373,979</u>	<u>436,199</u>	<u>46,166</u>	<u>259,100</u>	<u>305,266</u>
USES						
Est. Project Management	3,355	20,271	23,626	4,159	20,167	24,326
Est. Non-Participating Cost	3,988	-	3,988	3,138	-	3,138
Est. Design, Site, Construction and Equipment Cost	<u>38,671</u>	<u>198,608</u>	<u>237,279</u>	<u>29,156</u>	<u>160,032</u>	<u>189,188</u>
Total Expenditures	<u>46,014</u>	<u>218,879</u>	<u>264,893</u>	<u>36,453</u>	<u>180,199</u>	<u>216,652</u>
ENDING BALANCE	<u>\$ 16,206</u>	<u>\$ 155,100</u>	<u>\$ 171,306</u>	<u>\$ 9,713</u>	<u>\$ 78,901</u>	<u>\$ 88,614</u>

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(\$000s)

	D.C.			D.C.		
	Transportation	Federal		Transportation	Federal	
	Trust Fund	Aid	Total	Trust Fund	Aid	Total
	FY 2006	FY 2006	FY 2006	FY 2007	FY 2007	FY 2007
Sources						
Beginning Balance	\$ 9,713	\$ 78,901	\$ 88,614	\$ (4,081)	\$ (38,811)	\$ (42,892)
Interest Earnings	23	-	23	-	-	-
Motor Fuel Tax	30,295	-	30,295	30,757	-	30,757
Federal Aid Apportionment	-	104,000	104,000	-	105,000	105,000
Total Revenues	40,031	182,901	222,932	26,676	66,189	92,865
USES						
Est. Project Management	5,343	27,971	33,314	3,814	21,717	25,531
Est. Non-Participating Cost	3,590	-	3,590	2,683	-	2,683
Est. Design, Site, Construction and Equipment Cost	35,179	193,741	228,920	27,498	155,645	183,143
Total Expenditures	44,112	221,712	265,824	33,995	177,362	211,357
ENDING BALANCE	\$ (4,081)	\$ (38,811)	\$ (42,892)	\$ (7,319)	\$ (111,173)	\$ (118,492)

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OVERVIEW

This report summarizes the Office of the Inspector General's (OIG) review of the District of Columbia Highway Trust Fund's (Fund) 5-year forecast of expenditures, conditions, and operations. The objective of our review was to evaluate the underlying assumptions made and methodologies used to develop the statements. These statements are used to provide a reasonable basis for the 5-year forecast of the District's ability to meet future local matching requirements under the Federal Highway Administration Program for capital improvements to the District's transportation structure. We conducted our examination in accordance with the American Institute of Certified Public Accountants standards for attestation engagements and included such tests as we considered necessary under the circumstances. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

BACKGROUND

D.C. Code § 9-109.02(e) (2001) requires the OIG to examine the forecast statements of the Fund's expected conditions and operations for the next 5 years to determine the District's ability to meet future local matching requirements under the Federal Highway Administration Program for capital improvements to the District's transportation structure.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

Government fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities. A fund is a separate accounting classification with a self-balancing set of accounts.

The Fund is an agency fund used to account for the monies from motor vehicle fuel taxes and fees that are held in escrow by the District for the District's share of federal-aid highway projects. The District accounts for the construction of federal-aid highway projects, which are primarily financed by the Department of Transportation's Federal Highway Administration (FHWA) grants, in the Capital Projects Fund. The Capital Projects Fund is reimbursed from monies in the Fund to cover the District's share of the federal-aid highway projects.

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BASIS OF ACCOUNTING

The modified accrual basis of accounting is used to account for the Fund. Under the modified accrual basis of accounting, revenues are recognized when they become both “measurable” and “available.” Measurable means the amount of the transaction can be determined, and available means monies are collectible within the current period, or soon thereafter, to be used to pay liabilities of the current period.

Those revenues susceptible to accrual are excise taxes, rental and other fees, and interest. Excise taxes are recognized when the sale and use take place. Interest and fees are recognized as revenue through the passage of time.

MANAGEMENT ASSUMPTIONS

The District Department of Transportation (DDOT) annually prepares a 6-year forecast for the Fund, which is part of the Capital Improvement Plan of the District. The forecast reflects management’s judgment regarding the expected conditions, operations, and course of action for the Fund as of May 15, 2003. The assumptions disclosed herein are those that management believes are significant to the forecast. There will usually be differences between the forecasted and actual results because events and circumstances frequently change due to the nature of the activities covered by the Fund (major design and construction), and those differences may be material.

The forecasted statements are based on the following assumptions:

- The “D.C. Transportation Trust Fund” columns represent estimated local revenue sources from motor vehicle fuel tax collections and interest earnings, less the District’s share of project expenditures that are subject to federal aid match.
- The “Federal Aid” columns represent the federal aid commitment balances and projection of matching grants for known highway projects.
- The FY 2002 amounts are based on actual amounts included in the audited financial statements prepared by the OIG and issued January 31, 2003. The amounts include the beginning Highway Trust Fund balances for the local share and federal aid. The local share equals the audited fund balance as of September 30, 2001, plus the FY 2002 collections and receivables as of September 30, 2002, less the FY 2002 payments and

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audited outstanding liabilities as of September 30, 2002. The federal aid amount includes the federal share of FHWA financed projects in progress or completed, but not closed.

- Interest earnings are estimated using a 1.0 percent annual interest rate on the rolling monthly average cash balance. Management used zero interest when the monthly rolling balance reported a cumulative negative interest earned for the year.
- The estimated uses for project management, non-participating costs, design, site construction, and equipment costs are based on the actual estimated completion date for the phase of each federal-aid highway project. The project management and design, site, construction, and equipment costs that are eligible for matching federal aid are allocated based on the federal and local share of each individual project. The non-participating costs are those costs that are not eligible for federal aid match and include overhead construction engineering costs, utility and sewer repair, and construction enhancements not covered by FHWA.

NOTES TO FORECAST STATEMENTS

REVENUE SOURCES

Beginning Balance – For FY 2002, the prior fiscal year's ending fund balance plus the federal aid commitment balance. In each subsequent fiscal year, the beginning balance is the ending balance brought forward from the prior fiscal year.

Interest Earnings – Estimated annual earnings, calculated at a rate of one percent, on the beginning balance plus annual revenues minus expenditures.

Motor Fuel Tax - Annual estimated excise tax earned on motor fuel sold in the District.

Federal Aid Apportionment - Federal funding provided to all states and the District of Columbia by legislation enacted by Congress. The apportionment also includes estimated special allocations and grant awards of federal funds for FY 2003.

USE OF FUNDS

Estimated Project Management Costs - Annual estimated costs for salaries of in-house employees and contracted construction management services.

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Estimated Non-Participating Costs – Annual estimated costs not eligible for matching federal aid, which include overhead costs, utility and sewage repairs, and construction enhancements not covered by the FHWA.

Estimated Design, Site, Construction, and Equipment Costs – Annual estimated costs eligible for matching federal aid funds.

ENDING BALANCE

The ending balance equals the opening balance from the audited financial statement plus the amount of forecasted revenues, less the use of funds for estimated project expenditures. The ending balance is carried over to the following fiscal year as the beginning balance.

FORECASTED DEFICIT

In fiscal years 2006 and 2007, deficit spending is projected based on current revenue assumptions and expenditures for approved projects. In order to avoid violations of the Anti-Deficiency Act, which prohibit expenditures in excess of appropriations, DDOT will modify its Capital Improvement Program by postponing the start of projects.